

PROCLAMATION

BY THE

Governor of the State of Texas

41-1063

REPRODUCED FROM THE
HOLDINGS OF THE
TEXAS STATE ARCHIVES

TO ALL TO WHOM THESE PRESENTS SHALL COME:

I disapprove, and am vetoing and filing with the Secretary of State Senate Bill No. 59. I have studied the provision of Senate Bill 59 with great care. This bill contains a number of worthy technical amendments designed to modernize and make more effective various provisions of the Texas Banking Code.

However, there are features of Section 8 which greatly concern me in the interest of the people of Texas.

Its provisions would authorize any State Bank, National Bank, State Savings & Loan, Federal Savings & Loan, and "any other corporation subject to examination or supervision by the Banking Department of Texas" to engage in full-scale consumer finance installment lending at effective interest rates ranging from 13.6% to 16.2%, compared to the current legal limit of 10%.

No evidence was presented to the Legislature to justify these specific rates, either on the basis of reasonableness or need. The true test of any interest rate is not the size of the rate, but rather its reasonableness in relation to the needs of borrower and lender alike. A fair interest rate is one which takes into account the following factors: the nature of the loan transaction; the character of the borrower; the risk involved; and the administrative cost of providing the loan service. Only when all these factors are considered can a reasonable rate of interest be determined.

The question of interest rates, important as it is, is not the only disturbing feature of the bill. Another cause for my concern is the authorization for insurance charges contained in Section 8. Under the terms of subsection (g) lenders could require borrowers to purchase or provide insurance as security for a loan. The subsection does not in any way limit the number or types of insurance coverages which may be required; a borrower could easily be required to take several separate types of insurance to secure a loan. In effect, subsection (g) provides open-end authority for a lender to require whatever insurance he may desire in connection with a loan. The net result would be increased total cost of the loan to the borrower.

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My greatest concern in regard to Section 8 of the Bill is in regard to the phrase authorizing "any other corporation subject to examination or supervision by the Banking Commissioner of Texas" to make loans under the authority of the Section. At the present time, any Texas corporation organized for the purpose of lending money or engaging in related financial transactions must file an annual report with the Banking Commissioner under the terms of Article 1524a Vernon's Annotated Civil Statutes. If any such corporation sells trust certificates or debentures, it is also subject to a solvency examination by the Commissioner. It should be emphasized that the Banking Commissioner's regulatory authority under Article 1524a is extremely limited and restricted by the terms of the Article itself. Yet, from a legal standpoint, such limited control would constitute "supervision or examination" under the terms of Section 8.

As can be seen, certain lenders not subject to adequate or effective regulation would be authorized to operate under the terms of Section 8. In addition, the sale of insurance in connection with loans would under Section 8 not be subject to effective controls. While I have no doubt whatsoever that the regulated and respected financial institutions and corporations of our state would exercise the utmost responsibility in their operations under Section 8, the possibility still exists that unethical and unscrupulous lenders might qualify under the terms of Article 1524a to operate under the authority of Section 8. If such be the case, many Texans would find themselves at the mercy of such lenders without recourse to the protection of our state regulatory agencies. I am sure that this was not the intent or desire of members of the Legislature or the industry supporters of this Bill. I, therefore, veto Senate Bill 59.

There is an imperative need for a comprehensive code of consumer credit legislation for the State of Texas. This code should encompass all phases of consumer finance operations in our state. It should provide adequate interest rates, free and fair competition between financial institutions and industries, and effective regulation.

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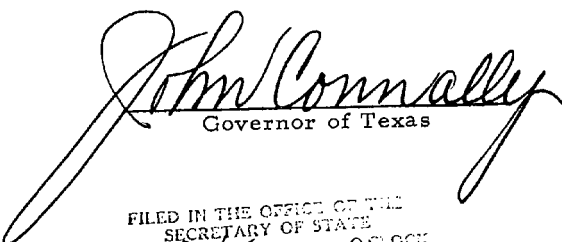
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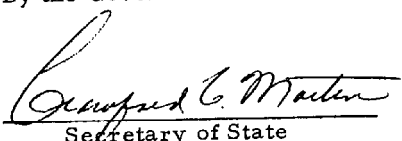
Under such a code, the people of our state would be assured of low, competitive interest rates and protection from possible abuse. In addition, the financial institutions and industries of our state would be assured of adequate rates and the right to competition. Such a code will bring stability and progress to this most important segment of our economy. To accomplish this end, I am requesting the State Finance Commission, which has responsibility for the supervision of our State Banking Department, State Savings and Loan Department, and State Office of Regulatory Loan Commissioner, to study this subject of a consumer credit code and formulate recommendations as to needed regulatory legislation and interest rates to govern all phases of consumer finance lending activities and lending institutions and industries. The Commission is requested to report its findings and recommendations to the Governor's Office prior to the convening of the 60th Legislature.

Senate Bill No. 59 was received in the Governor's Office on May 31, 1965 - less than 10 days prior to the adjournment of the Regular Session of the 59th Legislature - and in accordance with Article IV Section 14 of the Constitution of Texas, the Bill, together with this Proclamation, is filed with the Secretary of State.

IN TESTIMONY WHEREOF, I
have hereunto signed my name
officially and caused the seal
of State to be affixed hereto at
Austin this 19 day of June,
1965.


Governor of Texas

By the Governor:


Secretary of State

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
8:45pm 8 O'CLOCK

JUN 20 1965


Secretary of State